

THE ENTREPRENEURIAL SIDE OF THE PROPANE INDUSTRY

PAT THORNTON

It came as no surprise to many in the propane industry that earlier this year Tom Knauff, chairman and CEO of Energy Distribution Partners (EDP; Chicago), was named a finalist for the Ernst and Young Entrepreneur of the Year 2019 in the Midwest. The awards program recognizes entrepreneurs and leaders of high-growth companies who excel in innovation, financial performance, and personal commitment to businesses and communities, while also transforming the world. Although not ultimately the winner, being in the select group of finalists for such a prestigious award was a true honor for Knauff and the team that has helped him build EDP. Founded in 2012, EDP completed its 25th acquisition in August. The company is now the eighth-largest independent provider of propane and light fuels, has locations in 10 states, and is showing no sign of slowing down its growth. In the past three fiscal years, revenue more than doubled and EBITDA more than tripled.

For Knauff, the entrepreneurial spirit began long before EDP. He has been a leader in the start-up and acquisition process that built two previous companies, Propane Continental and Liberty Propane. Prior to that, he played a role in the growth of Ferrellgas, a company that had just 18 retail locations when he joined it in the early 1980s. “Ferrellgas was a young, growing, and vibrant place to work. I began in the wholesale and trading group, a fast-paced business [that] I found very interesting,” Knauff said. “It was fascinating to see how global and national factors affected propane cost.”

Ferrellgas grew dramatically in 1986 with the acquisition of Buckeye Gas Products Co., a move that took Ferrellgas from a regional company to the third-largest U.S. retail propane marketer. Knauff was appointed to a four-manager team to integrate the \$415-million buyout, the largest acquisition by Ferrellgas to this point. Additional acquisitions continued the growth. “It was a fascinating time. I had moved from the wholesale and trading group to overseeing 150 retail locations across diverse geographies,” Knauff explained. “The culture created a lot of energetic, young executives who almost functioned as if they were CEO of

their part of the company. We were completely accountable.”

“The whole propane industry was and is still very interesting to me,” said Knauff whose first job out of graduate school—where he taught Freshman Composition and Literature—was as a private investigator. He then had brief roles in capital equipment distribution and as a communications consultant for AT&T prior to joining the propane industry. “There are many of us who agree this industry is one you don’t want to ever leave. There is an amazing team spirit in the propane industry.”

DECISION TO LAUNCH A NEW COMPANY

“I think every businessperson at some point considers whether or not to start his or her own business,” Knauff said. “For me, I saw an opportunity to take my knowledge of how independent retail operations work as well as knowledge of the corporate side to build a company.” Knauff, of course, had learned a lot about the acquisition process during eight years at Ferrellgas, which made him more inclined to build a retail propane company through acquisitions rather than building companies from scratch. Propane Continental was launched in the early 1990s. “Tri-Power Fuels became a backer of Propane Continental,” Knauff said. “Kent Misemer, Kevin Cronin, and Larry Weinstein were key leaders at Propane Continental. They were a fabulous team to work with. We had three areas: the Northeast, Ohio Valley, and South Rockies.”

Knauff described the process of raising capital for the growing company as full of trial and error. “After 80 presentations, we had been turned down 78 times,” Knauff said. “A breakthrough came, though, in a visit with Goldman Sachs even though they turned us down. They actually took us to dinner to let us know they were not going to invest, but they said they wanted to give us some pointers that would get us to ‘yes’ with the right investors.” They changed their approach in a discussion with CID, an Indiana-based private equity group. The private equity group, too, declined, saying they were too small, but they recommended Allstate Insur-



ance, a large private equity investor, who agreed to invest. In the process, CID ultimately decided they could participate with the invitation of Allstate Insurance to be a junior investor.

The next major investing challenge came seven years later when senior management at Allstate Insurance changed and the decision was made to exit all 89 of its private equity investments. "Propane Continental was just hitting its stride after seven years and 36 acquisitions," Knauff added. "It was establishing its place in the industry and structured well financially." Nonetheless, Knauff and his team were faced with the need to get the capital out of Propane Continental, and the company was sold to Cornerstone Propane Partners LP. Knauff served as executive vice president at Cornerstone following the Propane Continental acquisition in 1998. "Private equity investors often want to get in and out of investments in a three- to seven-year period. Five years is often the sweet spot," Knauff explained. "We needed a different approach for future projects."

In a new venture called Jordan Knauff & Co., founded in 2001, Knauff and partner Cook Jordan sought to provide quality investment banking services to middle-market companies. Knauff became a founding partner and board member of Liberty Propane, a new propane retailer founded in 2003. Headed by Kent Misemer, who Knauff worked with at Propane Continental, it was believed that Liberty Propane would not have the same challenges Propane Continental had with just a single investor. In fact, by 2008 the company had grown to become the ninth-largest U.S. propane retailer with 41 locations. But the financial crisis that year was affecting investors across all industries and—even though Liberty Propane was growing and performing well—its investors required liquidity and the company was sold to Inergy Propane.

Knauff wanted to spend extra time to develop an investment strategy that would allow his next venture, which would be EDP, to grow for a longer time without the worry of investors needing to exit. "We'd seen the movie twice before with the previous companies," Knauff said. "We began working on the plans for EDP in 2010, a full two years and 10 months before the company was launched. This allowed time to formulate a more unique plan [that] aligned many more of the right investors with the company that would be developed. Today, with over 50 investors, we have investors with a variety of needs. Some investors have shorter-term time horizons, but these can be allowed to exit while other investors are in place to take over."

THE VALUES OF EDP

"With all three companies, we kept the local brand as we acquired companies. With EDP, I feel we are maintaining the local brand with the highest degree of expertise," Knauff said. "Having grown up in Winfield, Kan., I can compare the experience there with local brands versus large national chains. Many can relate to large chain stores such as Walmart and McDonalds coming into a town and wiping out a lot of independent local businesses. We want to keep the local name and local brand the same so that customers feel as comfortable as they always have with the business." Knauff feels that continuing to take care of employees, support the same charities, and support the same local sponsorships is very important to keeping the

business strong. "Cutting off a special agreement with a local church can seem to an acquirer like a way to save money, but don't forget everyone in the congregation may feel a loyalty to the company taking care of their church."

Time and title policies are honored by EDP so employees who stay under the new ownership do not have to lose benefits as if they are newly hired employees. "If you have been with the company for 20 years, you will be treated as if the ownership never changed," Knauff said. "Employees are actually more important to a company than customers. We want employees to treat customers as well as they feel they are treated." Having been on the buyer side of the acquisition of 82 businesses, Knauff feels he has experienced many of the nuances of the issues sellers have. "I feel we have the experience to mold a transaction to meet the unique needs of any seller. Most respond well to knowing we'll keep their legacy alive and that their employees will be taken care of."

In a few circumstances, charitable initiatives that were already successful at one company acquired by EDP have been implemented at other EDP companies. "We support the American Breast Cancer Foundation. We have pink bobtails and we even have a local dispatcher/CSR at our WOC Energy operation, Donny Vanness, who dyes his beard pink in support of the cause," Knauff said. "We love it! We definitely want to support the communities as well as the previous owner has in the past. We want to be a company people would want their kids to go to work for."

REMEMBERING MARLO YOUNG

"Every leadership team has been the right team at the right time in the retail companies, I feel," Knauff said. Mark Janek, Mark Zimora, and David Stroupe currently join Knauff on the EDP leadership team. Sadly, a key player, co-founder Marlo Young, who served as COO, passed away unexpectedly earlier this year. Young had been a member of EDP's executive team since its founding in 2012. He had previously served in operating and executive roles with Ferrellgas, Cornerstone Propane, and Inergy Propane. "Marlo Young had great operating expertise and a special way of understanding the local geography of each location," Knauff said. "He was a great partner to work with; very capable. Marlo and I agreed on about 90% of decisions and we were very stubborn about the other 10%. He is greatly missed."

With almost four decades working in and around the propane industry, Knauff feels most change has been for the positive. "As I've watched the independent retail propane marketers closely in the acquisition process, I have noticed the independent companies becoming more sophisticated," he said. "They have responded well to the challenges in their marketplace: efficiency lowering per capita usage, costs of people and assets such as steel are higher, and there are more regulatory requirements to contend with. On the positive side, the price of product is down. Programs like CETP and benchmarking have been critical to keep employees and leaders up to speed on best practices to keep the industry moving forward. And when it comes to safety best practices, that is certainly the highest priority for all of our EDP operations." ■